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Hearing Date: December 3, 2008 at 10:00 a.m.
Objection Date: November 28, 2008

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UNITED STATES BANKRUPTCY COURT
SOUTHERN DISTRICT OF NEW YORK

	:	Chapter 11
In re:	:	
	:	
	:	Case Nos. 08-13555 (JMP)
LEHMAN BROTHERS HOLDINGS	:	
INC., et. al.,	:	(Jointly Administered)
	:	
	:	
Debtor.	:	
	:	
	:	

**LIMITED OBJECTION AND RESERVATION OF RIGHTS OF THE FEDERAL HOME
LOAN BANK OF DALLAS TO DEBTORS' MOTION FOR AN ORDER PURSUANT TO
SECTIONS 105 AND 365 OF THE BANKRUPTCY CODE
TO ESTABLISH PROCEDURES FOR THE SETTLEMENT
OR ASSUMPTION AND ASSIGNMENT
OF PREPETITION DERIVATIVE CONTRACTS**

The Federal Home Loan Bank of Dallas ("FHLB Dallas") hereby files this limited objection and reservation of rights with respect to the Debtors' Motion for an Order Pursuant to Sections 105 and 365 of the Bankruptcy Code to Establish Procedures for the Settlement or Assumption and Assignment of Prepetition Derivative Contracts (the "Procedures Motion") and, in support thereof, states as follows:

BACKGROUND

1. On September 15, 2008, respectively, Lehman Brothers Holdings Inc. and, periodically thereafter, certain of its subsidiaries (collectively, the “Debtors”) commenced with this Court voluntary cases under chapter 11 of title 11 of the United States Code (the “Bankruptcy Code”).

2. On September 17, 2008, the United States Trustee for the Southern District of New York appointed a statutory committee of unsecured creditors pursuant to section 1102 of the Bankruptcy Code.

3. Prior to the filing of the Debtors’ petitions in bankruptcy, pursuant to an ISDA Master Agreement dated as of November 19, 1999 (the “Master Agreement”), FHLB Dallas and Lehman Brothers Special Financing, Inc. (“LBSF”), entered into numerous interest rate swap transactions documented by confirmations (collectively, the “FHLB Dallas Swaps”). As of the Early Termination Date (September 18, 2008, determined in accordance with the Master Agreement) and FHLB Dallas having terminated the FHLB Dallas Swaps in accordance with the Master Agreement, LBSF owes FHLB Dallas the sum of \$1,012,020.88 (the “Settlement Amount”).¹

THE PROCEDURES MOTION

4. On November 13, 2008, the Debtors filed the Procedures Motion. Pursuant to the Procedures Motion, the Debtors seek entry of an order authorizing: (i) procedures for the Debtors’ assumption and assignment of Derivative Contracts, including resolution of cure amounts; and (ii) procedures for the efficient processing of settlement agreements that may

¹ Pursuant to the Master Agreement, the FHLB Dallas Swaps, other contractual arrangements or operation of law, parties in addition to LBSF, including other Lehman entities, may be liable to FHLB Dallas for the Settlement Amount. FHLB Dallas hereby reserves all rights, including without limitation, with respect to payment and collection of the Settlement Amount from such parties.

establish termination payments and the return of collateral and/or property under terminated derivative contracts.² In the Procedures Motion the Debtors acknowledge the so-called “Safe Harbor” provisions of the Bankruptcy Code upon which the right of FHLB Dallas to terminate the FHLB Swaps is based.

5. Importantly, however, the Debtors appear to suggest that (a) Debtors have a right to pursue claims against parties which terminated swaps in compliance with an ISDA Master Agreement, (b) Debtors have a right to re-instate terminated swaps, and (c) Debtors may use the procedures proposed in the Procedures Motion, inter alia, to pursue remedies against counter-parties outside the Bankruptcy Court or otherwise without affording such counter-parties due process.

LIMITED OBJECTION AND RESERVATION OF RIGHTS

6. FHLB Dallas submits that the Debtors may not attempt to enforce alleged rights or exercise remedies against counter-parties without affording them due process, including, without limitation, notice and opportunity for hearing before a court of competent jurisdiction, and objects to the Procedures Motion to the extent it requests relief which would permit Debtors to do so. Decisions regarding whether a counter-party has breached an executory contract must be determined within an adversary proceeding. *Orion Pictures Corp. v. Showtime Networks, Inc. (In re Orion Pictures Corp.)*, 4 F.3d 1095, 1099 (2d Cir. 1993).

7. FHLB Dallas requests that its rights be reserved in full to object to and be heard in a court of competent jurisdiction with respect to any attempt by the Debtor to: (a) assume and/or assign any agreement with FHLB Dallas, or (b) enforce rights or exercise remedies against FHLB Dallas. Additionally, FHLB Dallas requests that its due process rights to be heard before

² Unless otherwise defined, capitalized terms shall have the meanings ascribed to them in the Procedures Motion.

this Court with respect to its objections to such an assumption and assignment be preserved and that such rights cannot be dispensed with by entry of a procedures order in accordance with the Procedures Motion.

CONCLUSION

WHEREFORE, for the reasons stated above, FHLB Dallas objects to the relief requested in the Procedures Motion to the extent cited above and respectfully requests that if the Procedures Motion is approved by the Court, then FHLB Dallas rights to object to Debtors' attempt to (a) assume and/or assign any agreement with FHLB Dallas, or (b) enforce rights or exercise remedies against FHLB Dallas before a court of competent jurisdiction be preserved, and that the Court grant such other and further relief as is deemed just and proper.

Dated: November 26, 2008

Respectfully submitted,

/s/ David L. Barrack

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